

Charon J. Harris  
Secretary



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March 13, 1997

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Federal Communications Commission

Mr. William F. Caton  
Secretary  
Federal Communications Commission  
1919 M Street, NW Room 222  
Washington, D.C. 20554

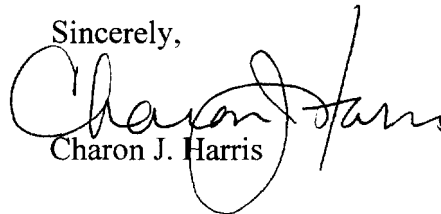
**EX PARTE: Federal-State Joint Board on Universal Service (CC Docket No. 96-45)**

Dear Mr. Caton:

Today representatives of GTE Service Corp. met with John Nakahata and Doron Fertig to discuss GTE's position in the captioned docket. GTE used the attached presentation to facilitate the discussion. In accordance with Section 1.1206(a)(1) of the Commission's Rules, an original and two copies of this notice are being filed with the Secretary of the FCC.

Please let me know if you have any questions.

Sincerely,



Charon J. Harris

Attachment

cc: D. Fertig  
J. Nakahata

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UNABODE

041

**ISSUES IN THE DESIGN OF  
THE FEDERAL UNIVERSAL SERVICE PLAN**

**GTE**

**13 March 1997**

- 1) The Plan Should Define What Carriers Are Expected to Do In Return for Universal Service Support.**
  - Each carrier that becomes a universal service provider should have an obligation to serve any customer in a given area (CBG).
    - Obligation needs to be specified
    - Obligation must be the same for each carrier that receives support
  - If the obligation is not properly specified, the plan can't succeed
    - Not competitively neutral
    - Not sufficient
  - **Why is obligation necessary?**
    - Customers are heterogeneous
    - With limited information, the plan can only offer an average support for each customer in an area
    - With no obligation, some customers will not be served voluntarily
    - If only ILEC is obligated, others can select the customers they want.
  - **What must the Federal plan specify?**
    - Service Definition (addressed by Joint Board)
    - Price and terms (not addressed by Joint Board)
  - GTE's proposal is consistent with Joint Board Recommendation that states should determine affordability. GTE proposes that states should determine universal service obligation, subject to Federal guidelines:

- Price ceiling
- Must make defined service available separately at price no higher than ceiling
- Any other requirements state may establish
- Must be the same for all carriers receiving support in a given area.
- Effective obligation is necessary
  - For success of any plan
  - To have an item which can be auctioned
  - To implement exit provisions of 1996 Act

**2) Resale and Unbundling**

- A carrier that takes on the obligation should have responsibility for delivering service.
  - Should be able to resell service where available
  - Support goes to underlying carrier
- A carrier that loses the auction must lose its obligation to serve
  - Including resale and unbundling obligations

**3) The Plan Should Specify Where the Money Comes From**

- The Joint Board is silent on how carriers recover their contributions
- There must be a clear provision for passthrough to customers
  - Surcharge is the only neutral method, since ILECs cannot freely adjust their rates
  - If only net receipt from fund is available for rebalancing, implicit support will not be removed

**4) Plan Must Be Designed to Be Robust With Respect To Errors in the Cost Models**

- Initial level of support should be based on cost
  - Proxy models should be used to provide relative cost information, not cost levels.

- Actual cost at study area level should be distributed to CBGs based on model estimates
- Price cap "basket" could be established within which ILECs have limited ability to make relative cost adjustments across areas
- Auction approach replaces cost-based support as areas are noticed for bidding

**5) Federal Benchmark Should Be Chosen to Provide Best Tradeoff of Federal and State Funding**

- Factors affecting choice of benchmark have nothing to do with average revenue or cost
- FCC should take account of total funding need
  - For this purpose, it is not reasonable to include other service revenues


**6) Scope and Basis of the Federal Plan**

- The best approach is for the Federal plan to be based on both state and interstate revenues
- Choice of plan funding base is interrelated with other aspects:
  - Use of funding
  - Basis for funding (retail or net revenue)
  - Passthrough provisions

Auction Proposal  
for  
**universal  
service**



# Why an Auction?

- 
- Market solution to setting subsidy levels
  - Ensures adequacy of support
  - Avoids unnecessarily high subsidies
  - Identifies efficient (“low cost”) suppliers
    - » Bids reflect *bidders’ own* cost expectations
    - » Bids reflect follow-on services, too
  - Replaces cost-of-service regulation

# Auction Design Objectives



- Promote competition “in the market” where feasible: innovation & service quality
  - Promote efficiency of supply
    - » Low costs & valuable vertical services
  - Keep subsidies low
- 
- Avoid collusion
  - Simplify administration and bidding
  - Account for changing environment

# Context for the Auction

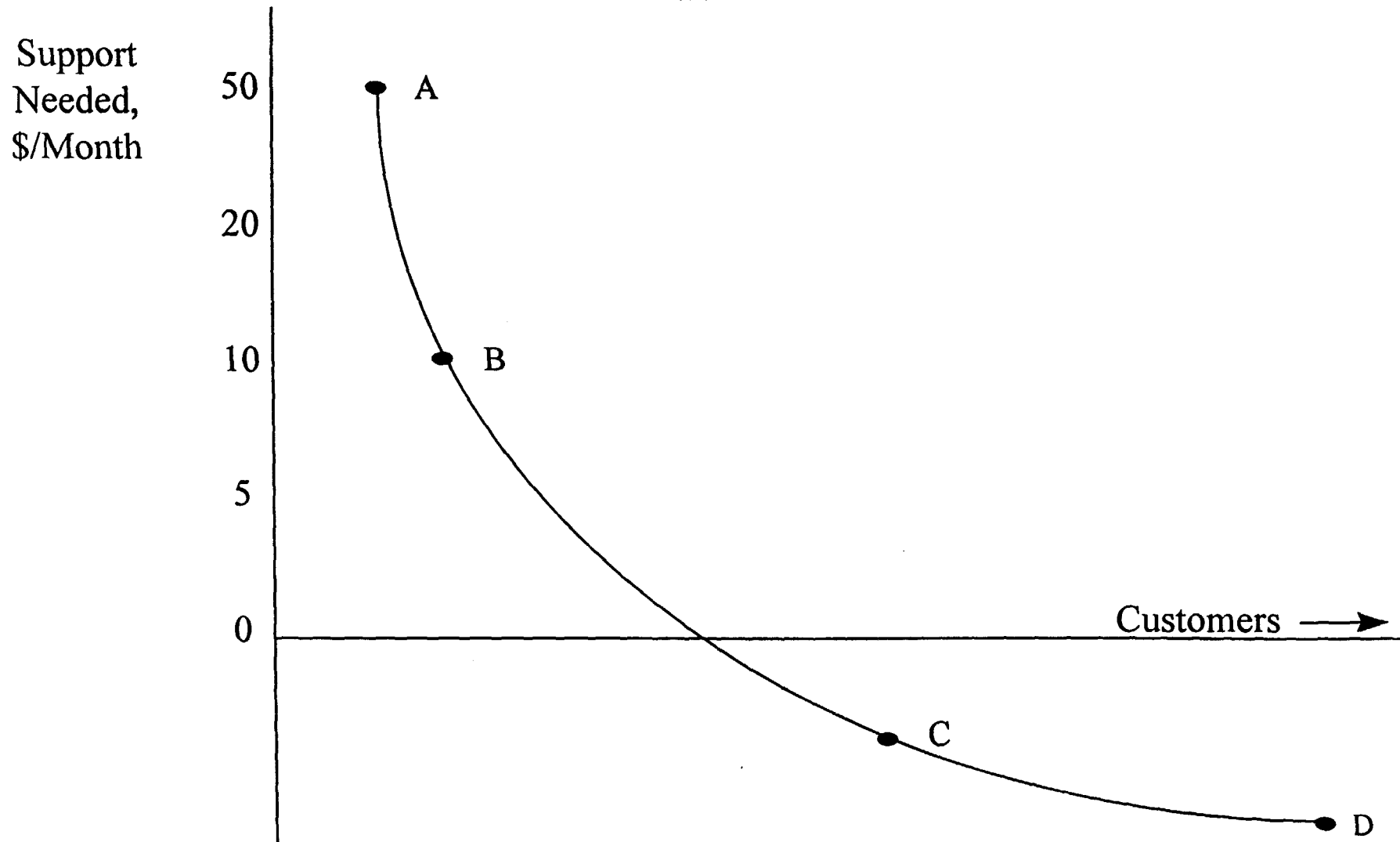


*Auctions amplify the importance of these:*

- Small geographic areas (CBGs)
- Obligation to serve
- Possibility of exit
- Subsidies on a per-subscriber basis
- Integrated regulation of unbundling & resale obligations



## *Ordering of Customers within a Service Area, By Support Need*




# Auction Elements




- Nomination of Areas
- Verification of Bidder Qualifications
- Sealed Bid Auction with Possibility of Multiple Winners
- Post-auction Implementation


# Nomination

- 
- Twice yearly window for nomination by “el tel”
  - Entrant may nominate multiple CBGs
  - Auction only areas nominated


# Verification

- 
- “El tel” designation
  - Require commitment to serve
    - » service obligations established by state commission, within federal guidelines
  - Verify bidder capabilities

# Auction Rules

- 
- Single round sealed bid auction
  - Separate bids for each CBG
  - Maximum bid based on initial subsidy
    - » multiple of cost estimated by model, or
    - » cost assigned to CBG by ILEC
  - Multiple winners possible
    - » E.g. all bidders within 15% of low bid declared winners
  - Support at highest acceptable bid
  - Bids may be withdrawn subject to penalty

# Post-Auction Implementation

- 
- Reasonable transition period when market structure changes
  - Obligations are transferable to qualified el tels
  - Areas may be rebid at any time if no change in market structure
  - Areas may be rebid after three years after an auction that changes the market structure
  - Subsidies may be indexed in similar fashion to “price caps”